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Report on the activities of the Office of Internal Oversight Services

Report of the Office of Internal Oversight Services
Part one

Summary

The present report is submitted in conformity with General Assembly resolution 48/218 B of 29 July 1994 (para. 5 (e)); resolution 54/244 of 23 December 1999 (paras. 4-5); and resolution 59/272 of 23 December 2004 (paras. 1-3). It covers the activities of the Office of Internal Oversight Services (OIOS) from 1 July 2005 to 30 June 2006, except for the results of OIOS peacekeeping oversight activities, which will be reported to the General Assembly separately in part II of the report in the resumed part of the sixty-first session.

During the period, OIOS issued 234 oversight reports, including 18 reports to the General Assembly. The reports included, 1,919 recommendations to improve internal controls, accountability mechanisms and organizational efficiency and effectiveness. Of those recommendations, 932 were classified as critical to the Organization. Through the recommendations, the Office identified a total of 49.2 million United States dollars ($) in cost savings. Actual savings and recoveries amounted to $14.2 million. The addendum to the present report (A/61/264 (Part I)/Add.1) provides a detailed analysis of the implementation status of the recommendations and highlights those that are of particular concern.

To the extent possible, oversight assignments are undertaken to address areas of risk most likely to affect the Organization's ability to carry out its mandated activities effectively. During the current period, efforts focused on the five areas that OIOS considered to be of highest risk in the current environment in which the Organization operates, as follows:

* A/61/150.

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- **Health, security and safety**. Staff throughout the Organization are subject to risks to their health, security and safety. OIOS has taken a comprehensive approach to undertaking audits of security procedures at various duty stations since 2004. The Office continued conducting such audits during the current period. In addition, the Office initiated a quick-impact audit of the Organization's preparedness for the avian flue pandemic.

- **Programme management**. The nature of the work performed by United Nations departments and offices varies widely and involves organizational and managerial challenges associated with programme planning and management. To address those challenges, OIOS oversight activities during the period included programme performance monitoring and reporting, inspections and evaluations.

- **Information and communication technology**. The Organization's increasing dependence on information and communication technology (ICT) makes ICT operations vulnerable to risks such as unreliable data and systems. Information technology governance, strategic planning, access security, and contingency and business continuity planning were among the issues addressed by OIOS during the period.

- **Capital master plan**. The size and complexity of the capital master plan project pose a unique set of risks that encompass financial exposure as well as staff safety and security. The Office provided continuous audit coverage of the project, closely following developments through direct interaction with the departments and offices involved.

- **Integrity violations**. Investigations into misconduct were carried out, including violations of United Nations regulations, rules and pertinent administrative issuances, as well as allegations of fraud, corruption and sexual misconduct. To address significant weaknesses in internal control and potential fraud in United Nations procurement activities, OIOS created an ad hoc Procurement Task Force.

Of the more than 60 United Nations entities for which OIOS provides oversight services, some pose particular oversight challenges owing to their high financial exposure and/or to their complexity as a result of geographical dispersion or a broad scope of work. These entities require extensive and continuous oversight coverage by OIOS. The present report provides a synopsis of work conducted by OIOS in five such client departments and offices in the period under review: the Department of Management, the Office for the Coordination of Humanitarian Affairs, the Office of the United Nations High Commissioner for Refugees, the United Nations Joint Staff Pension Fund and the United Nations Compensation Commission.

Preface

I am pleased to submit my second report to the General Assembly on the activities of the Office of Internal Oversight Services during the 12-month period ending 30 June 2006. Twelve years since the inception of OIOS, the present report comes at a particularly important time for the Office. Internal and external assessments of OIOS operations, coupled with intensified calls from Member States and the Secretary-General for greater accountability and transparency, pillars of any sustainable reform initiative, have all contributed to the current momentum for strengthening oversight in the United Nations.

Building on that momentum and in response to the resolution adopted by the General Assembly at the 2005 World Summit[1] to strengthen oversight and governance in the Organization, in July 2006 OIOS presented a report to the General Assembly on proposals for strengthening the Office of Internal Oversight Services (A/60/901). That report addresses the impediments to the Office's activities and proposes solutions to them. Additionally, the report presents new initiatives designed to enhance the effectiveness and efficiency of independent internal oversight at the United Nations. I look forward to the discussions of the proposals in that report in the General Assembly.

Over the past year, we have continued to lay the groundwork for a more robust oversight office. Notable achievements include the launch of a systematic risk-assessment methodology in June 2006, aimed at identifying oversight priorities. In addition, in February 2006 the Office launched a single system for recommendation monitoring, known as Issue Track, to replace the seven disparate databases that had been used by the Office in the past. Those and other initiatives represent important milestones for the Office and attest to our commitment to excellence.

However, just as OIOS must keep pace, in the interest of the Organization, with the latest developments in the oversight profession, the United Nations has to align itself within a framework which adheres to best practice in governance and oversight. Particularly in an organization as complex as the United Nations, it must be emphasized that the responsibility for internal control and the management of risks lies squarely with programme managers. In fact, to underscore the role of management, the phrase internal control is often used synonymously with "management control".

Therefore, I firmly believe that the United Nations should adopt and adhere to a formal internal control framework. Such a framework would help foster an environment conducive to fulfilling successfully the Organization's mission, while strengthening accountability and transparency. It would not only present a common definition of internal control by which all actors must abide, but also provide a baseline against which United Nations entities could assess and improve their internal control systems.

OIOS notes with appreciation that the Secretary-General, in his report entitled "Investing in the United Nations for a stronger Organization worldwide: detailed report: accountability",[2] stresses effective internal control as a requirement for effective measurement of programme delivery and achievement of results. The

[1] Resolution 60/1 of 16 September 2005.

[2] A/60/846/Add.6.

report furthermore lists the key components of internal control, namely, control environment,[3] risk assessment, control activities, information and communication, and monitoring. The Office sees the adoption of a formal internal control framework, such as one based on the Guidelines for Internal Control Standards for the Public Sector[4] of the International Organization of Supreme Audit Institutions (INTOSAI), a United Nations-sponsored organization, as the next logical step in strengthening oversight at the United Nations Secretariat.

Coupled with the introduction of an internal control framework is the requirement that programme managers report on the effectiveness of internal control in the programmes under their leadership. Such personal attestations would obligate individual managers to consider the implementation of internal control measures as a necessary enabler of programme success.

The Office is also strongly encouraging the Organization to consider launching its own risk management framework. While it could be separate from the internal control framework described above, in an ideal situation both could be integrated under one robust framework.

I have thoroughly enjoyed my first year as the head of the Office in these exciting times of change and reform. As part of the Organization's commitment to increased transparency and accountability, I look forward to the strengthening of the Office. I am committed to fulfilling my vision of making OIOS the best and most respected internal oversight office among its peers. In that vision, I have full confidence in the professionalism and capabilities of my staff, whom I wish to thank in the present context for their excellent work over the past year. I am also grateful for the support of the Member States and the trust they have placed in the Office, which enables us to carry out our important mandate.

(*Signed*) Inga-Britt **Ahlenius**
Under-Secretary-General for Internal Oversight Services

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[3] "Control environment", often also referred to as "organizational culture", is the foundation of internal control and forms the basis for all other components of internal control.

[4] Internal Control Standards Committee (Brussels and Vienna, INTOSAI, 2004). Available from http://www.intosai.org/Level3/Guidelines/3_InternalContrStand/3_GuICS_PubSec_e.pdf.

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I. Introduction

1. The Office of Internal Oversight Services (OIOS) was established by the General Assembly in its resolution 48/218 B of 29 July 1994 as an independent entity to enhance oversight in the Organization. The Office assists the Secretary-General in fulfilling his oversight responsibilities, in his capacity as the Chief Administrative Officer, in respect of the resources and staff of the Organization. The Office currently consists of internal audit, investigations, monitoring, inspection, evaluation and internal management consulting. The overall objective of the Office is to enhance effectiveness in the implementation of all programmes through continual improvement of internal control mechanisms within the Organization.[5]

2. The present report provides an overview of OIOS oversight activities during the period 1 July 2005 to 30 June 2006. Following the introduction, sections I.2-I.4 cover the impediments to the Office's work; cooperative initiatives with the Board of Auditors, the Joint Inspection Unit and other peer oversight groups; and the Office's strategic initiatives during the reporting period. Section V provides an overview of the Office's principal findings, organized by (a) five significant areas of risk to the Organization, and (b) five key oversight clients. Section VI highlights OIOS management consulting activities during the period. In the annexes to the report, OIOS informs the General Assembly of its initiatives to expand oversight services to other United Nations agencies (annex II), in response to resolution 60/1, paragraph 164 (d), and proposals for strengthening the Office's evaluation capacity (annex III), in response to resolution 60/257, paragraph 14. Finally, a separate addendum (A/61/264 (Part I/Add.1)) provides an analysis of the recommendations not implemented by OIOS oversight clients as at 30 June 2006, as well as a list of OIOS reports issued during the period.

3. The present report does not cover oversight results and findings in the Department of Peacekeeping Operations or in the peacekeeping missions, as they will be presented to the General Assembly in part II of the report during the resumed part of the sixty-first session.

II. Impediments to the work of the Office of Internal Oversight Services

A. Funding restrictions

4. Resource allocation to OIOS has not kept pace with the demand for oversight services. This has often curtailed or reduced the scope of assignments and has occasionally made it impossible for the Office to provide any oversight whatsoever. Consider the following examples:

- As a result of the United Nations Compensation Commission's decision to fund only two professional auditor posts, OIOS has been able to audit less than 6 per cent of the approximately $52 billion in claims awarded.
- The International Criminal Tribunal for Rwanda has decided to fund only one professional post, as opposed to the recommended two posts, at a time when

[5] See A/60/6 (sect. 29).

the second post is critical, as the Tribunal is winding down its operations. Two professional staff are funded at the International Criminal Tribunal for the Former Yugoslavia, which in the opinion of OIOS serves as a benchmark, as the scope of audit work in the two entities is comparable.

- The United Nations University has not yet resolved the funding of an auditor post.[6]

The above-mentioned cases violate the most fundamental element of resolution 48/218 B founding the Office of Internal Oversight Services, which states the following:

> The Office of Internal Oversight Services shall exercise operational independence under the authority of the Secretary-General in the conduct of its duties and, in accordance with Article 97 of the Charter, have the authority to initiate, carry out and report on any action which it considers necessary to fulfil its responsibilities with regard to monitoring, internal audit, inspection and evaluation and investigations as set forth in the present resolution (para. 5 (a)).

5. Given the implications of the current funding situation for the Office's independence and performance, OIOS has outlined, in its report on proposals for strengthening the Office of Internal Oversight Services (A/60/901), a new budget process for the Office based on a single budget allocation and justified by the assessment of risks facing the Organization. If approved, that proposal will significantly enhance the Office's independence, eliminating the conflict-of-interest issues associated with multi-source funding by oversight clients and enabling the Office to effectively address key areas of risk.

B. Hindrances to the progress of work

Access to records and personnel

6. OIOS staff need unhampered and timely access to information to fulfil the Office's mandate. That principle has been reiterated by the General Assembly in its resolution 48/218 B and is supported by the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, which OIOS and other internal audit services in the United Nations have formally adopted.

7. There was one situation in particular during the period 2004/05 that severely impaired the ability of OIOS to carry out its work. Between February and March 2006 the Special Representative of the Secretary-General of one peacekeeping mission issued several memorandums describing to mission staff certain options for interacting with OIOS. Such conditions are, by nature, restrictive and in clear violation of resolution 48/218 B, and they had a negative effect on the mission staff's willingness to cooperate with OIOS. The result was that OIOS access to records and personnel and the scope of OIOS assignments were severely curtailed. OIOS resident auditors in the mission were unable to finalize any audit assignments during the first six months of 2006 because mission staff insisted on exercising the options given by the Special Representative. OIOS investigators also faced obstacles in carrying out their duties. Despite several interventions from senior staff

[6] See the OIOS annual report for 2004-2005 (A/60/346, para. 6).

in OIOS and the Secretariat, the situation was not resolved until May 2006, when the Under-Secretary-General for Internal Oversight Services notified the Secretary-General that the auditors would be withdrawn unless the instructions were reversed completely and unconditionally. As a result of that notification the Special Representative decided to withdraw his instructions to the mission staff and the situation has now normalized.

Other hindrances

8. In the United Nations Operation in Côte d'Ivoire (UNOCI), the security situation and subsequent evacuation of all non-essential staff hindered the work of OIOS auditors and investigators for nearly three months. For most of the evacuation, OIOS staff were temporarily reassigned to other peacekeeping missions.

9. In the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC), management has not provided comments on three OIOS audit reports because Mission staff had to focus on the 30 July 2006 elections. As a result, those reports have not been finalized. As at 30 June, MONUC was from two to three months overdue in providing OIOS with their comments to the reports.

10. While OIOS acknowledges that certain situations, such as the security situation in Côte d'Ivoire, may warrant delays, OIOS staff should have unencumbered and prompt access to personnel and records to execute their duties effectively and efficiently. United Nations management at all levels should respect the fundamental principles of transparency and independent oversight.

III. Cooperation with other United Nations oversight entities

System-wide forums

11. The Office of Internal Oversight Services recognizes the value and importance of fostering relationships with its functional peers outside the Office's oversight mandate. As such, OIOS professionals in audit, evaluations and investigations are actively engaged in their respective United Nations system-wide forums for sharing experience and learning from one another. Some examples include the following:

- Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions
- United Nations Evaluation Group
- Interpol Group of Experts on Corruption
- International Group for Anti-Corruption Coordination
- International Investigators Conference

Cooperation with the Board of Auditors and the Joint Inspection Unit

12. Apart from continuous ad hoc interaction among staff, senior officials of OIOS and the Board of Auditors meet every two months. The Office of Internal Oversight Services, the Board of Auditors and the Joint Inspection Unit also meet annually in the form of the tripartite oversight coordination meeting. Among the examples of effective cooperation stemming from the meetings is the coordination of work: OIOS, the Board of Auditors and the Joint Inspection Unit share their workplans

regularly to avoid duplication and optimize synergies. For example, during the period, OIOS reduced its planned audit coverage of field procurement activities owing to the Board's extensive involvement in that area.

Tsunami cooperation

13. As stipulated by resolution 60/259, the General Assembly has requested the Secretary-General to entrust OIOS with a presentation to the General Assembly at its sixty-first session of a consolidated report on audits and investigative reviews undertaken by United Nations entities of the tsunami relief operation. OIOS is making efforts to coordinate with peer oversight offices for the preparation of the consolidated report. However, it has been pointed out by the internal audit units of the funds, programmes and specialized agencies during OIOS meetings with them that further discussion on cooperation can be pursued only if a letter is sent by the Secretary-General to the Heads of those entities suggesting such cooperation. OIOS has drawn the Secretary-General's attention to the fact that in the absence of his intervention, OIOS cannot make progress on the above-mentioned issue and will not be able to report to the General Assembly in accordance with the mandated request.

IV. Internal initiatives

14. Throughout the past year, the Office continued to build and strengthen initiatives to help the Organization improve controls and manage risks and to improve the professional practices of the Office itself. Some of those initiatives are described below.

A. A more structured and focused mechanism to assess risks

15. The Office is responsible for providing oversight services to a wide range of diverse and complex operations that are constantly changing. It is imperative that OIOS remain current on these changes and that it have a mechanism in place to ensure that emerging issues and potential exposures are identified.

16. Although the Office's workplans have taken a risk-based planning approach into consideration during the past several years, as noted in several of its previous annual reports, the Office has thus far not conducted a full-fledged risk assessment of all the entities that fall under its oversight mandate. There are two main reasons for this: primarily, the way OIOS is funded tends to emphasize the importance of the funding source, rather than allocating resources based on risk-weighted importance. Second, OIOS has lacked a well thought out methodology for such comprehensive planning to be used Office-wide. The absence of a comprehensive risk assessment framework has been highlighted by recent external reviews of OIOS.

17. After several months of preparation, the Office launched a systematic risk-assessment methodology in June 2006 to develop risk-based workplans resulting in oversight priorities. Implementation of the project is expected by the end of 2007 and, provided that the issue of budgetary independence for OIOS is solved, the 2008 workplan will be fully risk based. To complete this ambitious exercise, OIOS will require external assistance, a full-time risk assessment focal point and dedication by many staff beyond their normal duties.

18. However, OIOS recognizes that to better focus its allocation of resources on the areas of highest risk, the Office must work in partnership with managers, who are the experts in their own areas of work. To underscore the importance of management's involvement in assessing risks, during the reporting period OIOS facilitated a risk assessment process jointly with the United Nations Office for Drugs and Crime (UNODC) management and staff. UNODC is using the initiative to implement its own risk management framework. In addition, OIOS was involved in the risk assessments conducted by external consultants for the Department of Peacekeeping Operations and the United Nations Joint Staff Pension Fund (UNJSPF), with the participation of the management and staff of those two entities.

19. Once completed, the risk assessments will provide OIOS with a structured framework to justify the areas that it views as representing the highest risk to the Organization as well as a means to identify the resources required to conduct the oversight assignments to address them. The risk assessments thus also provide the basis for OIOS funding requirements. Through its resource allocation, the Organization will be able to determine its risk tolerance, that is, the level of risk it is willing to accept by knowingly leaving some areas without or with limited oversight coverage. In that regard, it needs to be re-emphasized that the management of risks always remains the responsibility of management.

B. Investments in information and communication technology

20. OIOS continues to progress in several technology-related areas. In internal audit, the information and communication technology audit capacity is being strengthened with the creation of a specialized ICT audit section. In addition, internal audit staff in New York and Geneva have been offered in-house training courses in ICT auditing.

21. Several initiatives are aimed at harnessing efficient technologies to help the Office better conduct its work. The Internal Audit Division has completed the pilot phase of the electronic working papers project, known as "auto audit", an application to streamline the audit process and increase productivity. The Evaluation Section began using web-based survey technology tools to collect data for evaluations. In the Monitoring and Inspection Section, a study is under way to examine the use of web metrics for measuring programme performance and to establish a set of core standards or principles as a reference for future performance planning, monitoring and evaluation.

22. The Investigations Division in Vienna recruited a staff member with specialized ICT skills to assist investigators. Additional staff with such skills are being recruited in Vienna and New York.

C. A new system for monitoring recommendations

23. In order to streamline monitoring of the implementation of recommendations, OIOS launched a single recommendations database, known as Issue Track, in February 2006. That system replaced seven disparate databases that had been used by the Office in the past. The new instrument will improve OIOS reporting to the General Assembly and the Secretary-General on the implementation status of recommendations.

24. In addition to monitoring recommendations, the system allows real-time data analysis of recommendations by each oversight client. It will allow OIOS to differentiate each action efficiently, based on its implementation time frame, thereby putting more emphasis on those recommendations that are more urgent. In that regard, OIOS and programme managers have begun discussing target dates for the implementation of each recommendation.

25. As a next step, the entities to which OIOS provides oversight coverage will be able to conduct an online dialogue with OIOS via web browser to discuss their progress in implementing each recommendation. The new feature, which is expected to be launched by the end of 2007, will contribute to increasing the programme managers' ownership of and responsibility for the implementation of recommendations and will improve overall implementation rates.

D. Improving professional practices

26. In order to ensure that the Office produces consistently high quality oversight work, initiatives are under way to further develop the professional practices within each functional division. OIOS is therefore in the process of establishing dedicated professional practice units or focal points in each division.

27. In addition, while many staff have already attained professional certification within their respective fields, all staff are highly encouraged to gain professional certification. To underscore the importance of professional certification, OIOS intends to make it mandatory, where applicable, for senior positions. OIOS also plans to develop a skills inventory and institute a training strategy to ensure that skill needs are aligned with training initiatives.

V. Oversight results

A. Areas of risk

28. Section V.A presents a summary of OIOS oversight results during the 12-month period under review. It includes key findings regarding five risk areas, which are vulnerable to inefficiencies, ineffectiveness, lack of accountability, misconduct, mismanagement, waste of resources or abuse of authority and which were the subject of OIOS focused oversight coverage in the period under review. It concludes with a summary of oversight activities in five United Nations departments and offices which OIOS considers to be high-risk programmes as a result of high financial exposure and/or their complexity owing to a wide geographical dispersion or a broad scope of work.

1. Health, security and safety

29. Ensuring the security and safety of United Nations staff and property continued to be a risk area of major concern. In that regard, the Office continued to monitor the implementation of the recommendations resulting from its audits of security procedures carried out at 20 field missions in 2004 and conducted additional audits of security and safety management at other duty stations.

Furthermore, OIOS is concerned about the potentially catastrophic effects of an avian flu pandemic.

Health

30. In May 2006 OIOS initiated a quick impact audit of compliance with the Pandemic Planning and Preparedness Guidelines for the United Nations System, issued on 15 March 2006. The purpose of the audit was to give the leadership of the United Nations an overall assessment of United Nations organizations' compliance with the guidelines and the completion of the pandemic contingency plans, which were due by 30 May 2006. The audit included United Nations Headquarters, the offices at Geneva, Vienna and Nairobi, the Office of the United Nations High Commissioner for Refugees (UNHCR), the regional commissions and several peacekeeping operations.

31. While the consolidated report had not been finalized as at 30 June 2006, OIOS initial findings showed that in general, United Nations organizations were experiencing varying degrees of success in completing their contingency plans. Some took a proactive approach, using the pandemic planning guidelines to enhance their overall crisis plans. Other duty stations faced the challenge of harmonizing their plans and coordinating with United Nations entities and external partners. Some peacekeeping missions had to address the additional challenge of working with fragile or uncooperative Governments.

Security and safety

32. During the reporting period, audits of security and safety management were conducted at the United Nations Office at Nairobi (UNON), the United Nations Office at Geneva (UNOG) and the United Nations Office at Vienna (UNOV). All entities have accepted OIOS recommendations resulting from those audits, which are in various stages of implementation.

33. At UNON (report number AA2004/211/03), the audit disclosed that several United Nations entities did not require background checks on newly recruited security staff. OIOS recommended that such checks be introduced since those staff members have access to information about the security of UNON buildings and staff members' residences.

34. The audit at UNOG (AE2005/311/06) concluded that the role and responsibilities of the designated official for the United Nations security accountability framework should be clarified for all United Nations organizations and agencies based in Switzerland. The audit emphasized that no official coordinating mechanism existed that would ensure a unified security management structure for all United Nations entities in Geneva. Subsequently, UNOG reported that the Director-General had taken steps to address the issue at the duty station level. In consultation with the heads of funds, programmes and specialized agencies, the Director-General established a security management team in November 2005 as the primary coordinating mechanism for security matters.

35. The audit at UNOV (AE2005/321/02) found that progress in enhancing physical security arrangements at the Vienna International Centre was impeded by various factors, mainly the difficulties emanating from the need to coordinate physical security enhancements with the three other organizations at the Centre and

with the host country. Security management at UNOV was only about 30 per cent compliant with the minimum operating security standards in September 2005, but according to UNOV management, compliance will reach 70 per cent by the end of 2006.

2. Programme management

36. Between United Nations departments and offices, there is a wide disparity in the nature of work performed. Some deal mainly with an internal clientele, some serve intergovernmental bodies and others provide services directly to the public at large. In such an environment, mitigating the myriad of risks associated with programme planning and management is an ongoing challenge. OIOS continued to address those issues in its oversight work and has provided separate reports to the General Assembly, which are summarized herein.

37. Recent OIOS evaluations have highlighted various risks with regard to programme management in the areas of knowledge management and political affairs. The thematic evaluation of knowledge management networks in pursuit of the goals of the United Nations Millennium Declaration (E/AC.51/2006/2) found that the Organization had a limited capacity to store, share and utilize its knowledge assets, and that knowledge sharing in support of the Millennium Development Goals was not sufficiently strategic, focused or well integrated with organizational objectives. The in-depth evaluation of political affairs (E/AC.51/2006/4) found that the overall implementation record of the regional divisions in the Department of Political Affairs in conflict prevention, control and resolution was mixed, and that the divisions needed substantial management, organizational and work process changes in order to be more effective.

38. In addition, OIOS prepared the biennial report on strengthening the role of evaluation and the application of evaluation findings on programme design, delivery and policy directives (A/61/83 and Corr.1), which concluded that evaluation capacity and practice in the Organization were often inadequate. The report also identified weaknesses in the quality of evaluations produced.

39. OIOS inspections have continued to provide the General Assembly and senior managers with objective information about programme performance, with analyses of programme operations, management and oversight systems and with recommendations for improving programme implementation, resource management and management controls. OIOS has highlighted the need for strengthened policy coordination among regional United Nations entities, as reported in the inspection of programme and administrative management of the subregional offices of the Economic Commission for Africa (ECA) (A/60/120), and the challenges that need to be addressed by Economic and Social Commission for Western Asia (ESCWA) to realize its full potential, as reported in the inspection of the programme and administrative management of ESCWA (A/61/61).

40. OIOS also provided ongoing oversight of the Organization's implementation of results-based programme management, monitoring and reporting. Based on the Office's continuous validation of programme results indicators, together with self-assessments submitted by the individual departments, OIOS completed the programme performance report of the United Nations for the biennium 2004-2005 (A/61/64). A positive development is that, pursuant to paragraph 20 of General Assembly resolution 58/269, the outline of the proposed programme budget for

2006-2007 (A/59/415) identified, within each section, resources earmarked for monitoring and evaluation.

3. Information and communication technology

41. The Organization necessarily relies on information and communication technology systems, which makes it vulnerable to a wide array of risks such as unreliable data and systems. Information and communication technology is a key component in the Secretary-General's reform process, intended to match the Organization's work programme more closely to its priorities. OIOS has prepared an ICT auditing strategy and is now taking action to implement the strategy. One of the initial priorities is to address the risks involved in the planned implementation of an enterprise resource planning system. Another is to assist the Secretariat with a view to ensuring that there will be tangible benefits in terms of increased efficiency and effectiveness from this considerable investment.

42. During the period, the Office undertook a number of ICT audit assignments. Two ICT management audits, at the Economic Commission for Europe (ECE) and the United Nations Conference on Trade and Development (UNCTAD), made similar observations, particularly in the areas of information technology (IT) governance, strategic planning, access security, and contingency and business continuity planning. Those risk areas are likely to exist in other entities as well and therefore need to be addressed by the Organization system-wide. The Economic Commission for Europe and UNCTAD have accepted the Office's recommendations, and corrective action is being taken.

43. At ECE (AE2005/720/01), the Information Systems Unit, which is responsible for the Commission's core application systems, had no control over the systems developed and maintained by other divisions. Eight applications that had been developed outside the Unit were running and were being maintained independently. At UNCTAD (AE2005/340/01), four substantive divisions operated and maintained IT systems independently of the Information Technology Support Unit. OIOS was concerned that the situation at both organizations could result in a lack of uniformity, compatibility and interoperability between systems.

44. Neither ECE nor UNCTAD had developed an information and communication technology strategy that supported their respective mandates. The Office emphasized the importance of developing and implementing such a strategy, which should reflect the global ICT policies of the United Nations Secretariat. OIOS also recommended that systems development and other ICT activities should comply with the standards and procedures promulgated by the Secretariat's Information and Communications Technology Board.

45. The audits noted that ECE and UNCTAD had no formal policy covering all aspects of IT security. At ECE there was no procedure to ensure that the Information Systems Unit would be informed immediately of staff movements and thus be able to update data on those individuals. In the case of e-mail accounts, the UNCTAD network administrator was not always informed of such crucial details as the duration of short-term contracts for staff and consultants. As a result, the e-mail accounts of the former employees could possibly still be accessed remotely via the Internet.

46. Neither ECE nor UNCTAD had detailed plans to ensure that in the event of a major disaster, critical functions would be properly recovered and become operational within an acceptable timeframe. The Office recommended that the entities collaborate with their main providers of ICT services to categorize the risks involved and use that exercise as a basis for developing their respective business continuity plans.

4. Capital master plan project

47. The highly complex nature of the capital master plan, coupled with financial exposure and safety-related concerns, makes the plan the riskiest and most ambitious construction project the Organization has ever undertaken. In fulfilment of resolution 57/292, the Office has provided continuous audit coverage of the project, closely following developments through direct interaction with all departments and offices involved, including the Office of the Capital Master Plan. In that process, OIOS findings and recommendations have been communicated for corrective action where appropriate. OIOS continues to follow up on those issues and is finalizing a report to capital master plan management summarizing its findings.

Code consultant

48. The code consultant will review and advise the Office of the Capital Master Plan on building-code issues and on ways to bring the United Nations complex into line with host country federal, state and city building codes and ensure compatibility with the International Building Code. In that respect, the code consultant will perform a 100 per cent review of all construction documents, from design development stage through project close out. OIOS reviewed the code consultant contract award and found that the firm proposed for selection by the Procurement Service bid less than one half the amount bid by the other two qualified bidders. Based on industry practice, OIOS was concerned that this significant difference could indicate that services by the proposed bidder would be of substandard quality. OIOS recommended that the Office of the Capital Master Plan and the Procurement Service perform a detailed review of the scope of work for the code consultant, both as originally envisaged and as included in the request for proposal, and reassess the contract selection criteria.

49. According to the Office of the Capital Master Plan, OIOS observations were communicated after the Procurement Service had completed its due diligence and after its recommendation was presented to the Headquarters Committee on Contracts on a best value for money basis. Capital master plan management also noted that the firm had scored significantly higher technically than the other bidders. Finally, the Office of the Capital Master Plan noted that it was highly satisfied with the performance of the firm, and with their timeliness, efficiency and quality of staff assigned to various tasks. OIOS will follow up on issues related to the code consultant.

Construction law counsel

50. Concerning the selection of the construction law counsel for the refurbishment work, OIOS was not able to verify the justification by the Office of the Capital Master Plan to use United States Department of Health and Human Services

construction management contract OFEMP-CM, part A and part B exclusively, for the refurbishment. In the view of OIOS, a specific reference in that contract to "expertise", which was included in the request for proposal, constituted an exclusive clause, which needed to be justified. The Office of the Capital Master Plan explained that it would be critical to the selection process to incorporate a requirement for expertise in the preparation, review and negotiation of that specific type of contract. In their opinion, generic expertise was not the objective of the procurement exercise. OIOS accepted the clarifications provided but stressed that future capital master plan contracts should comply with established procurement procedures or properly document any deviations.

Preconstruction phase service agreement

51. During the review of certain aspects of the draft preconstruction phase service agreement (part A), the Office observed that the United Nations general terms and conditions of contract were not consistently incorporated in the agreements. OIOS also recommended that the drawings and specifications should be quasi-completed and that all necessary quality assurance reviews should be done to ensure the biddability and constructability of the plans before receiving a guaranteed maximum price from the capital master plan construction manager. The Office of the Capital Master Plan implemented most OIOS recommendations as revisions to the agreement.

Security strengthening project: contractor's claim

52. OIOS assessed the validity of the findings of a construction consultant engaged by the Office of the Capital Master Plan to review the security strengthening project contractor's claim of $5.2 million for design changes, scope and contract amendment, restrictions on the original contract work, and the like. The consultant found that of the 343-calendar-day overrun, 186 days were attributable to the contractor and subject to liquidated damages, and 157 were attributable to the United Nations. In the view of OIOS, the contractor's claim was premature because the contract work was only 55 per cent complete at the time of claim submission. Normally, such claims are submitted when the work is substantially completed. OIOS also felt that the United Nations should not compensate for time delays attributable to the Organization since the contractor, in not informing of delays within the prescribed 28 days, was in breach of contract. OIOS recommended that instead, the contractor be granted a time extension equivalent to the delays. OIOS also questioned the justification for the compensation amount of $9,000 or $10,000 per diem, instead of the $5,000 stipulated for liquidated damages in the contract.

53. The Office of the Capital Master Plan responded that the project manager for the security strengthening project concurred with the OIOS observation and explained that the estimated per diem expenses were based on construction industry standards and best practices. The Office of the Capital Master Plan also noted that the issue of contractor claims for daily expenses was not linked with the contractual value assigned to liquidated damages. Furthermore, the Office of Legal Affairs advised that the contractor's claim then totalled more than $7.7 million. After consulting with the Office of Legal Affairs, the Procurement Service notified the contractor that its claim for additional compensation would be addressed by the United Nations in accordance with the dispute resolution provisions of the contract. The construction manager has not yet completed its analysis of the contractor's

claims. Ongoing consultations among officials of the contractor and of the Office of the Capital Master Plan, the Procurement Service, the Office of Legal Affairs and the construction manager are in progress in order to fully comprehend and analyse the contractor's revised claim. OIOS is following up on the issue with the offices concerned.

5. Integrity violations

54. The relevant statutory rules provide that United Nations staff shall conduct themselves at all times in a manner befitting their status as international civil servants and shall not engage in any activity that is incompatible with the proper discharge of their duties with the United Nations. The OIOS mandate provides that the Office shall investigate reports of violations of United Nations regulations, rules and pertinent administrative issuances and transmit to the Secretary-General the results of such investigations together with appropriate recommendations to guide the Secretary-General in deciding on jurisdictional or disciplinary action to be taken.

Investigations related to procurement

55. In June 2005, the Office commenced an investigation of a procurement officer in the Procurement Service (0307/05) in New York, who was alleged to have used his office and knowledge to obtain a paid internship for a family member. The staff member acknowledged the allegation and resigned from the Organization. As a result of subsequent inquiries relating to an offshore company set up by the same staff member, OIOS found that this individual had facilitated the illicit and secret payments of currency by companies to himself and arranged for those companies to be awarded procurement contracts by the United Nations. In August 2005 he pleaded guilty to violations of the United States code relating to wire fraud and conspiracy to commit money-laundering and he is awaiting sentencing.

56. Arising from the same inquiry, the then Chairperson of the Advisory Committee on Administrative and Budgetary Questions at the United Nations was also charged with money-laundering offences. His case is pending at the United States Attorney's Office for the Southern District of New York.

57. To address significant weaknesses in internal control and potential fraud in United Nations procurement activities, OIOS established an ad hoc procurement task force under specific terms of reference that were approved by the Under-Secretary-General for the Office of Internal Oversight Services on 12 January 2006. The Procurement Task Force operates under the OIOS mandate and reports directly to the Under-Secretary-General for the Office of Internal Oversight Services.

58. The Task Force faced a number of operational challenges throughout the first six months of 2006. A variety of legal issues required arduous clarification. Professional administrative support, particularly crucial for staffing and budgeting, was not provided from the outset. The investigators also encountered delays in their attempts to access United Nations data systems. However, the Task Force is now at full strength and operating at full speed. The original staff of 6 professional investigators has expanded to 20 investigators, with one support personnel. Budgetary resources have been committed to the end of 2006. While the Task Force had not finalized any reports as of the period ending 30 June 2006, by the time the

present report has been submitted for processing (15 August 2006) four investigative reports will have been shared with the relevant programme managers.

Sexual exploitation and abuse

59. The Secretary-General and the Member States have made clear the zero tolerance policy for sexual exploitation and abuse. Although the issue primarily affects peacekeeping missions, the importance for the entire Organization of addressing this form of misconduct has been underscored by the implementation of special measures for protection from sexual exploitation and sexual abuse, including the report of the Secretary-General on special measures for protection from sexual exploitation and sexual abuse[7] and the Secretary-General's bulletin on special measures for protection from sexual exploitation and sexual abuse.[8] In July 2005, OIOS received additional resources to investigate existing and emerging cases of sexual exploitation and abuse. A recent increase in allegations related to peacekeeping missions demonstrates that there is much work to be done. The Office will report further details to the General Assembly separately.

Other misconduct

60. OIOS received several reports of alleged misuse of vehicles by current and former senior officials at various United Nations duty stations. For example, an investigation that followed an OIOS audit revealed evidence that a vehicle, assigned by a senior official to himself and to the United Nations drivers who worked for him, was used for private purposes. This systematic misuse, especially during weekends and public holidays, had resulted in a financial loss for the Organization, given that the drivers had been paid overtime. OIOS estimated the financial loss to be at least the equivalent of $35,000 during the period January 2003 to January 2005. OIOS recommended that appropriate action be taken against the senior official concerned and that the actual financial loss, once it had been determined precisely, be recovered in full following a report to the Office of the Secretary-General on the exact amount of the loss. OIOS was advised that the official had also been sent a strongly worded letter by the Secretary-General regarding the matter, and that he had subsequently made a reimbursement to the Organization for the costs relating to his use of the official car for non-official functions.

61. At the Economic Commission for Africa (ECA), an investigation (0553/03) found evidence that one former ECA staff member printed 10 duplicate ECA cheques and sold them to a retired ECA staff member, who cashed them. As a result of those fraudulent actions, the Organization suffered a financial loss of $179,000. In consultation with the Office of Legal Affairs, the matter was referred for prosecution to the national authorities, and in early 2006 both former staff members were arrested. An OIOS investigator will testify at their trial following receipt of a customary waiver of privileges and immunities from the Office of Legal Affairs.

62. An investigation at the Economic Commission for Europe (0412/05) produced evidence that a staff member misused laptop computers provided for the discharge of his official duties by accessing pornographic and paedophile Internet sites, downloading related material from the Internet and viewing an X-rated DVD on one

[7] A/60/861.

[8] ST/SGB/2003/13.

laptop. Disciplinary proceedings for repeated instances of misconduct were initiated.

B. Overview by entity

1. Department of Management

63. During the period under review, OIOS provided continuous audit coverage of the Department of Management. The bulk of that work was dedicated to the comprehensive management audit of the Department of Peacekeeping Operations (A/60/717) requested by the General Assembly, which also covered various Department of Management activities. OIOS has started the planning of a similar comprehensive audit of the Department of Management, in particular to examine how responsibility is assigned within the Department and how accountability for actions is realized. The audit will also examine whether the Department's structure and internal processes allow it to operate transparently, efficiently and effectively. Given the crucial role played by the Department in the management of the United Nations Secretariat in such areas as finance and budgeting, procurement and human resources, OIOS also sees the need for a comprehensive risk assessment.

64. OIOS has requested the Department of Management to act on a number of its observations and recommendations pertaining to audits of various other entities of the Secretariat. The related issues pointed to the need to improve (a) policies on the management of financial, human and physical resources of the Organization, and (b) the design or implementation of internal controls. During the period, OIOS issued a total of 104 audit recommendations to the Department.

65. In the comprehensive management audit of Department of Peacekeeping Operations procurement (AP/2005/600/20), OIOS found indications of breaches of financial regulations and rules in a number of procurement cases conducted at Headquarters and in peacekeeping operations. The recommendations addressed to the Department of Management noted a number of critical areas that needed improvement, including internal controls and procurement procedures. The Department of Management has taken the proper steps to implement the OIOS recommendations expeditiously, as indicated in the report of the Secretary-General on procurement reform.[9] For example, a proposal to significantly reinforce the resources of the Procurement Service was presented to the General Assembly.

66. An audit of human resources management (AP/2005/600/18) indicated that the Department of Management had exercised minimal accountability for its functions concerning field staff. As a result, the lines of responsibility between the Department of Management and the Department of Peacekeeping Operations had been blurred, to the detriment of field staff management. In view of that assessment, the report recommended, inter alia, that the Department of Management should conduct a comprehensive and objective review of the delegation of authority to the Department of Peacekeeping Operations, taking into account the original intent of the delegation, the efficiency and effectiveness of the latter's implementation of the delegated authority and the envisaged Secretary-General's reform. The Department of Management has recognized that the delegation of authority to the Department of Peacekeeping Operations is in need of a comprehensive and objective review and, to

[9] See A/60/846/Add.5.

that end, has informed OIOS that such a review will be undertaken to assess the effectiveness of a more decentralized administration.

67. A large number of critical recommendations in the audit report on financial management and budgeting (AP/2005/600/19) were addressed to the Department of Management. They included reorganizing the budget process for peacekeeping operations with particular attention to eliminating duplication of work by the Department of Management and the Department of Peacekeeping Operations; defining responsibility and accountability for the budget process in the field and between the field and Headquarters; developing comprehensive guidance for the budget process; implementing a results-based approach to budgeting; improving budget performance reporting; enhancing the skills of finance staff; and creating effective automated tools for budgeting.

68. The audit of pooled trust fund accounting (AH2004/511/02) found that although internal controls in the accounting for trust funds were adequate, there was a significant delay in bookkeeping. It took on average 35 days after receipt for contributions from Member States to be entered on the books of the trust funds. As a result, trust fund allocations were often delayed. OIOS concluded that the current process for entering contributions should be automated.

69. The audit of assets disposal (AH2005/513/03) noted that the Headquarters Property Survey Board, which is responsible for rendering advice in respect of loss, damage or other discrepancy regarding the property of the United Nations (financial rule 105.21), was not fully equipped to properly discharge its responsibilities. For example, it did not have access to the asset databases, which record the disposal of assets at Headquarters and in peacekeeping missions. OIOS also disclosed that the time lag for review by the Board (on average 169 days to review the 58 cases finalized by the Board in 2004-2005) was excessively long.

70. The audit of the Medical Insurance Plan offered to locally recruited staff and to national officers (AH2004/511/03) found that the Plan generally appeared to be effective, cost-efficient and well adapted to local circumstances. However, the audit noted that hardship cases, particularly those submitted to Headquarters for processing, should be dealt with more quickly to ensure that staff members' claims — and in some cases those of surviving family members — were not subject to undue delays. OIOS also noted that there was a relatively large surplus in the reserve ($28.2 million at the end of 2003). The surplus may indicate that the cost of participation is too high at some duty stations. That is, the insurance premiums collected from participating staff and retirees are higher than the payments made to medical service providers at those locations.

2. Office for the Coordination of Humanitarian Affairs

71. Based on a preliminary risk assessment, OIOS identified the Office for the Coordination of Humanitarian Affairs (OCHA), together with other entities of the Organization engaged in emergency operations, as a high priority for oversight. Major risks are inherent in the rapid deployment of resources in environments lacking either basic facilities support or strong administrative structures. Based on that risk assessment, which is constantly tested through audits, OIOS has developed a risk register to assist management in strengthening controls in these high-risk areas.

72. During the period, OIOS finalized audits of the Office for the Coordination of Humanitarian Affairs country offices in the Democratic Republic of the Congo and in Indonesia, the Central Emergency Response Fund and human resources management for OCHA field operations. The audits showed that OCHA effectively performed vital functions in addressing the effects of natural disasters and complex emergencies. In accordance with its mandate, OCHA coordinates the efforts of other humanitarian agencies and non-governmental organizations (NGOs) in quick assessments of the needs of the people affected by disasters. It plays the very important role of attracting the attention of the humanitarian community and effectively mobilizes resources for a coordinated response to the consequences of disasters. The Office for the Coordination of Humanitarian Affairs was instrumental in the significant increase of resources available through an enlarged Central Emergency Response Fund and its new grant component.

73. However, OIOS audits also identified certain high priority areas where the management and internal controls of the Office for the Coordination of Humanitarian Affairs could be further strengthened. Those areas are as follows:

- The mandate, organizational structures and functions of OCHA field offices could be further clarified to improve the coordination of work.
- The work of the field offices could be better planned by establishing clearer goals and performance indicators.
- The contractual arrangements for OCHA field staff, such as the use of 100 and 200 series contracts for the same functions at Headquarters and in the field, should be better suited for existing operational needs.
- Quick deployment of field personnel requires better planning at the central level and the establishment of an operational roster of qualified staff.
- Field operations need stronger administrative support in terms of detailed guidelines and assignment of experienced administrative officers from Headquarters to ensure that their resources are used in an economical and efficient manner.

74. In the audit of the OCHA field office in Indonesia (AN2005/590/07), OIOS found that despite certain achievements in the coordination of humanitarian assistance to people affected by the tsunami, there was a need to clarify responsibilities for humanitarian support. There was a risk that by committing some of its resources to the recovery and reconstruction phase, OCHA might be overstepping its mandate. In addition, expenditure figures in the expenditure tracking system could not be verified because the Office for the Coordination of Humanitarian Affairs financing of tsunami-related operations was not accounted for separately. There was thus no effective monitoring of the expenditures. OCHA agreed to take corrective action in the areas highlighted in the audit.

75. The audit of the Central Emergency Response Fund (AN2005/590/04), conducted on the eve of the General Assembly decision to significantly enlarge the Fund, disclosed that the total time from a request for funds to their actual release took too long (in some cases, up to 45 days), which cannot be considered suitable in emergency situations. Further, OIOS considered that the proposed oversight and reporting arrangements for the enlarged Fund did not ensure adequate transparency and accountability in the use of its resources.

76. The overall conclusion of the audit of human resources management for the field offices of the Office for the Coordination of Humanitarian Affairs (AN2005/590/03) was that a major change was needed in the management of human resources in order to support the field operations effectively and efficiently. Human resources management at OCHA had not fully met the needs on the ground. There were field offices with high vacancy rates and a high rotation of staff, especially at the senior level, which hampered the coordination of activities. In accordance with the United Nations human resource management principles, OIOS recommended that OCHA systematically address delays in recruitment for field offices and improve the fairness and transparency of the recruitment process. OCHA has agreed to address those issues.

3. Office of the United Nations High Commissioner for Refugees

77. The Office of Internal Oversight Services audited the operations and activities of the Office of the United Nations High Commissioner for Refugees (UNHCR) in 22 countries and at its headquarters in Geneva, and issued 28 audit reports to senior management. OIOS continued to apply a measurement system to rate the effectiveness of the application of key internal controls in audited UNHCR operations. The system facilitates benchmarking between country operations, provides management with assurance that activities are well or adequately administered and assists in identifying operations in which prompt corrective action is required. In the reports issued during the period, some 59 per cent of the audited operations were rated as average, while 26 per cent were above average and 15 per cent were below average or deficient. As at 30 June 2006, UNHCR had 164 open audit recommendations, of which 91 were critical. Despite the high number of recommendations outstanding, OIOS was generally satisfied with the UNHCR response to and planned implementation of the recommendations.

78. Systemic issues and trends have emerged through the audits of the above-mentioned activities. Action is required by UNHCR to ensure that those risks are effectively managed.

Issues emerging from audits of field operations

79. The use of funds by UNHCR implementing partners continues to be assessed as a risk area, where OIOS determined that financial controls were sometimes ineffective and occasionally absent. Throughout the period, OIOS issued a number of recommendations in this regard, and management has taken action to address them. More effective project monitoring of partners' activities is required, considering the significant level of funds ($340 million in 2005) and the responsibilities allocated to those partners by UNHCR.

80. Vacancies in key management positions and delays in staffing have adversely affected the smooth implementation of some field activities, particularly in emergencies and higher-risk operations. In more stable operations, OIOS identified that on occasion field management has reverted to recruiting personnel on irregular contracts. The establishment of the International Professional Roster has helped UNHCR meet certain recruitment and promotion needs. OIOS notes that the UNHCR structural and management change project is reviewing staffing issues. Further attention is required by UNHCR to ensure that the staffing and posting process, particularly for emergency situations, is more effective.

81. OIOS assesses procurement as a high-risk area, and it is included in the audit scope of all UNHCR field operations. For UNHCR field offices, annual procurement plans were not sufficiently comprehensive, nor were they developed in a timely manner to ensure efficiencies. Goods and services were sometimes procured locally without proper competition and/or compliance with procurement procedures. Procurement practices by field offices and implementing partners need to be improved to better mitigate risk, particularly for implementing partners, where there was not always sufficient evidence of competitive bidding, indicating inefficient procurement and uneconomical contracting.

82. The purchasing and management of fuel has also been identified as a high-risk area. Some large emergency operations are not properly managing this area, leading to significant discrepancies between the book stock balance and the amounts physically verified. UNHCR agreed that it is a high-risk area and stated that mechanisms are being established and tools developed to assist field operations in managing the activity.

83. Problems continue to exist with the management of assets, with less than satisfactory controls established in 65 per cent of the operations audited. Despite considerable efforts by UNHCR to review its asset records from a Headquarters perspective, the absence of physical verifications and data updating as well as the lack of priority given to those tasks calls into question the reliability of UNHCR asset records. OIOS has continued to recommend improvements and to highlight the need to make such improvements to asset management systems and controls that management has agreed to implement.

Global reviews

84. Contractual provisions and procedures for the payment of retrenchment benefits by UNHCR to staff of implementing partners were not sufficiently clear. As a result, field offices have entered into agreements far exceeding the amount payable under mandated national law and committing UNHCR in the long term to payments worth millions of dollars. There is a potential risk of further disputes if matters continue to be handled inconsistently. Clearer guidelines should be issued to ensure that legal and financial ramifications, including future potential liabilities, are thoroughly reviewed prior to any field office agreeing on a formula or policy for the payment of retrenchment benefits. UNHCR has agreed to draft such guidelines.

85. There is an upward trend both in the number and cost of medical evacuations. The fundamental principles were not always applied, resulting in unnecessary costs to UNHCR. Medical evacuation guidelines were not sufficiently clear, and some elements were too complex, resulting in numerous instances of misinterpretation and overpayment. OIOS made a number of recommendations to enhance procedures, to strengthen internal control and to clarify the guidelines. UNHCR responded that existing procedures will be examined within the context of an ongoing review of the Medical Service.

4. United Nations Joint Staff Pension Fund

86. The Office of Internal Oversight Services continued to serve as the internal auditor of the United Nations Joint Staff Pension Fund. During the reporting period, OIOS conducted five audits: three in the secretariat of the Fund, and two in the Investment Management Service.

87. The release of OIOS reports to the Member States, pursuant to resolution 59/272, has been a topic of discussion between OIOS and the Fund. While the Office of Legal Affairs has advised that the resolution applies to all reports issued by OIOS, including those issued to the Fund, this opinion has been questioned by the Fund. The Fund has reiterated that it is not a department or office within the United Nations Secretariat, but rather a subsidiary organ of the General Assembly. Given the independent inter-agency entity status of the Fund and its tripartite governance structure, which includes General Assembly representation in the United Nations Joint Staff Pension Board, the lines of reporting differ from those of other offices OIOS is serving. The General Assembly may wish to consider clarifying the reporting requirements of OIOS with regard to the Fund.

88. OIOS conducted an audit of the Investment Management Service's real estate investment portfolio, with a market value of $1.6 billion as of 31 December 2004 (AS2005/801/01). OIOS acknowledged that the Fund maintained a broadly diversified portfolio by property type, geographical location and investment vehicle, and that additional diversification was provided by funds that invest in hybrid real estate-related investment vehicles. However, OIOS found that those funds generally carried higher risks than conventional real estate funds and required more versatile risk-to-reward tolerance. They also required more specialized investment skills than traditional real estate investment vehicles. In addition, although the return on those investments had continuously been above their benchmarks, the Fund needed to ensure that the funds were properly categorized as real estate investments and that the risks associated with them were fully understood, monitored and managed. The Fund is taking corrective action on the recommendations made.

89. In an audit of brokerage and investment advisory services (AS2005/801/02), OIOS found that in general, the assistance provided by the non-discretionary advisers and brokers was adequate based on the level and quality of the services and the ratio of fees paid to the total portfolio value under management. However, OIOS found that high brokerage fees were being paid by the Fund in some countries. OIOS also determined that, although the advisers provided the Fund with investment advice on the types of securities, economic sectors and the degrees of risk, there was a need for a more clearly defined methodology for measuring risk and for greater analysis by the advisers in managing the risks to the Fund. The Fund is taking corrective action on the recommendations made.

90. OIOS also engaged a major consulting firm to conduct a comprehensive risk assessment of the Fund's activities where over $32 billion in assets are potentially at risk. The results of the assessment, which was concluded in December 2005, together with available audit resources, were the basis for prioritizing audit areas for 2006 through 2008.

5. United Nations Compensation Commission

91. OIOS has conducted internal audits of the United Nations Compensation Commission since 1997. OIOS has continuously requested additional audit resources to adequately audit Commission operations, and in January 2005 an additional auditor, in addition to the one previously approved by the Commission, was granted. However the vacancy was not filled until June 2006. Currently there are two internal auditors who are assigned to and financed by the Commission. In the view of the Office of Internal Oversight Services, the audit resources approved by the Commission do not adequately address the need to provide complete audit services. That restriction has meant that OIOS has been able to provide only limited audit coverage of the claims process. For example, with the audit resources provided, OIOS has been able to audit less than 6 per cent of the approximately $52 billion in claims awarded. As a result of the limited resources provided, the management of the Commission has accepted a level of risk that OIOS considers to be unacceptable to the Organization.

92. As noted in previous annual OIOS reports, the Commission has not properly addressed OIOS recommendations resulting from audits of claims processing. In an opinion by the Office of Legal Affairs, sought by the Commission in 2002 to determine the scope of OIOS audits, the Office of Legal Affairs concluded that it would not be appropriate for OIOS to review those aspects of the work of panels which were constituent elements of a legal process. In the view of the Office of Legal Affairs, the only appropriate role for OIOS was to audit how the panels had calculated the level of compensation that the panels then recommended for payment. The Commission has continued to maintain that position even in the face of General Assembly resolutions 59/270 (para. 3) and 59/271 (para. 11), which requested the Secretary-General to ensure that OIOS continue to provide internal oversight of the Commission's entire claims process and report regularly thereon in the context of OIOS annual reports.

93. During the period July 1997 to June 2006, OIOS has issued a total of 195 recommendations to the Commission, of which 84 (or 43 per cent) were considered critical. The implementation rate of the recommendations relating to administrative issues was 92 per cent, while only 35 per cent of the recommendations concerning high value and high-risk claim categories were implemented. The Commission completed claims processing in June 2005. Therefore, OIOS has closed 75 of its recommendations without implementation because the Commission did not accept them; with claims processing completed, most of the recommendations are no longer applicable. However, OIOS points out that the Organization bears responsibility for the risk of not implementing recommendations addressed to it. In the opinion of OIOS, many critical recommendations, had they been implemented, could have prevented overcompensation with regard to claims processing.

94. OIOS, in its audits and other communications, has repeatedly brought to the Commission's attention the possibility of fraud and duplicate payments in claims awarded. OIOS is concerned that the Commission has not taken clear action to mitigate or prevent the risks identified in OIOS audits. Even though the existence of such duplicate and overpaid claims was identified by the secretariat of the Commission during its review of the Panel of Commissioners' report on category A

claims,[10] dated 21 October 1994, the Commission did not take sufficient action to prevent fraud and duplicate payments. The Commission also did not take adequate action against claimants where there was evidence of false or misleading claims, stating that it did not have the ability to penalize or censure claimants outside of the process of verification and valuation of claims.

95. While the Commission has completed its processing of claims, it is still responsible for the payment of approximately $30 billion of unpaid claim awards, and this will constitute one of its major tasks in the future. Even as the Commission completes its mandate and winds down operations, it is important for OIOS to continue providing audit services with adequate resources. The implementation of its audit recommendations must therefore be monitored and addressed to an acceptable degree. In the view of OIOS, it is essential that audit resources be provided after 2006 to continue auditing significant outstanding awards.

96. Three audits were completed during the reporting period. Details of those audits are described in the following paragraphs.

97. In an audit of compensation award payments (AF2005/820/02), OIOS found that while existing award payment procedures were generally adhered to, the procedures themselves did not meet the control objectives set out in financial regulation 5.8(b). As such, there was no reasonable assurance of the effectiveness of the controls used in the certification and approval of $18.8 billion in award payments as of 31 December 2004. In addition, too much reliance was placed on Governments and international organizations for distributing award payments without adequate monitoring and oversight by the Commission. Of the 32 Governments and international organizations that received award payments of over $197 million, 14 did not support their distribution reports with audit certificates. OIOS also identified discrepancies between the Claims Payment Management System and the Governing Council reports with reference to reported distributions, refunds outstanding and undistributed refunds returned as of 31 October 2004.

98. An audit was conducted of Palestinian late D[11] claims, instalment 20 (AF2005/820/03), which included 404 claims valued at $836.9 million. Of that amount only $25.9 million was awarded. Although OIOS found that the Panel's review of claims was generally acceptable, OIOS was concerned about the number of C claims that were linked to D claims. Although exceeding the C claims limit of $100,000, those claims were processed using the less stringent C claims methodology. OIOS also noted that some claims submitted were significantly overstated and contained irregularities in the evidence submitted, which the Commission took into consideration during its review, resulting in only 3 per cent of the total claims value receiving awards.

[10] Category A claims are those submitted by individuals for departure from Iraq or Kuwait between the date of Iraq's invasion of Kuwait on 2 August 1990 and the date of the ceasefire, 2 March 1991.

[11] Category D and C claims are individual claims for similar loss types, except that D claims are for damages amounting to more than $100,000, while C claims are for damages of less than $100,000.

99. An audit of the Commission's liquidation activities (AF2005/820/04) disclosed that the internal controls were generally adequate. However, a number of issues were raised with the Commission for corrective action. For instance, there was no documented asset disposal plan, and assets with a cost price of $95,000 were lying in an unsecured corridor. OIOS also noted that milestones and timelines for each section of the Commission were not developed, and as a result there was a need to intensify its dialogue with the United Nations Office at Geneva to ensure a timely transfer of assets.

VI. Management consulting activities

100. During the past year, OIOS management consultants assisted a total of 14 individual client departments with streamlining processes and procedures, restructuring, and clarifying visions and objectives, and with other operational and strategic improvements, including such cross-cutting issues as delegation of authority, self-evaluation and, most recently, organizational structure and support for field operations. The impact of such support can be recognized in the enhanced ability of the Office of the High Commissioner for Human Rights to fulfil its plan of action for human rights; in the identification of options for a more effective governance structure at the United Nations Office at Nairobi; in the Department of Disarmament Affairs greater leveraging of its regional disarmament activities and operations; in the Department for General Assembly and Conference Management's improved slotting system; in the Department of Public Information's reforms based on its comprehensive self-evaluation; and in the Office for the Coordination of Humanitarian Affairs launch of its pilot rotation policy project.

Annex I

Overview of mandated reporting requirements

The categories of information to be included in the annual reports of the Office of Internal Oversight Services are set out in the following documents:

(a) Secretary-General's bulletin ST/SGB/273 of 7 September 1994 (para. 28):

(i) A description of significant problems, abuses and deficiencies, and related OIOS recommendations (see sect. V above);

(ii) Recommendations not approved by the Secretary-General (none);

(iii) Recommendations in previous reports on which corrective action has not been completed (see A/61/264 (Part I)/Add.1);

(iv) Management revised a decision from a previous period (none);

(v) Recommendations on which agreement could not be reached with management, or where requested information or assistance was refused (see sect. II above and A/61/264 (Part I)/Add.1);

(vi) The value of cost savings recommended and amounts recovered (see A/61/264 (Part I)/Add.1).

(b) General Assembly resolution 56/246 of 24 December 2001:

(i) Information regarding the implementation rate of the recommendations of the previous three reporting periods (see A/61/264 (Part I)/Add.1);

(ii) Information regarding the impact of the reorganization of OIOS on its work (see A/57/451, A/58/364, A/59/359, A/60/346 and section IV above);

(iii) Reporting separately on those recommendations that have been implemented, those that are in the process of being implemented and those for which no implementation process is under way, and the reasons for their non-implementation (see A/61/264 (Part I)/Add.1).

(c) General Assembly resolutions 57/292 of 20 December 2002 (sect. II, para. 22) and 60/282 of 30 June 2006 (para. 13):

Reporting on oversight activities conducted throughout the phases of the capital master plan project in the context of the annual reports of the Office (sect. V above, paras. 47-53).

(d) General Assembly resolutions 59/270 and 59/271 of 23 December 2004:

Provision of internal oversight of the entire claims process of the United Nations Compensation Commission and reporting regularly thereon in the context of the annual reports of the Office (sect. V above, paras. 92-100).

(e) General Assembly resolution 59/272 of 23 December 2004:

Annual reports should contain titles and brief summaries of all reports of the Office issued during the year (see A/61/264 (Part I)/Add.1).

In addition to the above-mentioned standard reporting requirements, the present report covers the following mandated items:

(f) General Assembly resolution 60/1 of 16 September 2005 (para. 164 (d)):

Reporting on the feasibility of expanding OIOS services to provide internal oversight to United Nations agencies that request such services (annex II below).

(g) General Assembly resolution 60/257 of 8 May 2006 (para. 14):

Reporting on ongoing efforts and measures taken to strengthen the Office's in-depth and thematic evaluation function, and responding to ad hoc evaluation requests by programme managers (annex III below).

Annex II

Expanding oversight services to other United Nations agencies

1. In paragraph 164 (d) of the 2005 World Summit Outcome (resolution 60/1), the General Assembly authorized the Office of Internal Oversight Services to examine the feasibility of expanding its services to provide internal oversight to United Nations agencies that request such services in such a way as to ensure that the provision of internal oversight services to the Secretariat will not be compromised.

2. OIOS considers that it is feasible to offer services to entities that may request them. The services could be particularly beneficial for small entities that may not have access to the diverse range of oversight skills OIOS can provide. The provision of such services would require a memorandum of understanding agreeing on the types of services and the resources required.

3. For example, OIOS has recently negotiated an agreement with the United Nations Framework Convention on Climate Change and the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa for the two organizations to share the cost of one Resident Auditor at the P-4 level based in Bonn, Germany. Although both entities are outside the United Nations Secretariat and are thus not funded by the United Nations, they have adopted financial procedures that include OIOS as their internal auditor.

Under the terms of the agreement, OIOS will conduct its audits in accordance with the International Standards for the Professional Practice of Internal Auditing and will operate in accordance with the provisions of General Assembly resolutions 48/218 B, 54/244, 59/272 and any future resolution mandating OIOS functions and operations. The United Nations Framework Convention on Climate Change and the United Nations Convention to Combat Desertification will benefit from OIOS oversight expertise and the unified audit approach and methodology.

Annex III

Strengthening the evaluation function of the Office of Internal Oversight Services

1. The General Assembly, in its resolution 60/257 of 8 May 2006, requested the Secretary-General

> to entrust the Office of Internal Oversight Services with reporting to the General Assembly at its sixty-first session on ongoing efforts and measures taken to strengthen its in-depth and thematic evaluation function, as well as to respond to ad hoc evaluation requests by programme managers to ensure that intergovernmental bodies are provided with high-quality professional and objective reports on the performance of programmes and activities (para. 14).

The following sections outline the OIOS response to that request.

A. Recognition of the urgent need to strengthen the United Nations Secretariat's evaluation function

2. The need to enhance the United Nations central evaluation function has been repeatedly stressed. The Secretary-General has pointed out that although the General Assembly has passed several resolutions aimed at strengthening evaluation, the effectiveness of those resolutions remains severely limited by a drastic shortage of resources, thus inhibiting the analytical input that allows Member States to make decisions about the effectiveness of the Organization's programmes in fulfilling their mandates, and their future shape and course.[a] The inadequacy of resources dedicated to evaluation has also been independently affirmed by the Joint Inspection Unit, which established that the ratio of the overall annual Secretariat's budget per evaluator was $382 million, or 55 per cent more than the highest range of the acceptable budgetary workload.[b]

3. In his report entitled "Investing in the United Nations: for a stronger organization worldwide",[c] the Secretary-General made two proposals to strengthen evaluation:

(a) That monitoring and evaluation tools be reformed and synchronized so that their results could be evaluated in the formation of the subsequent budget (see proposal 18);

(b) That a programme evaluation capacity be established to strengthen the ability of the Fifth Committee to review all $10 billion in Secretariat resources and allow a linkage between programme performance and budget review (see proposal 21).

[a] See A/60/733 and Corr.1, paras. 34-35.
[b] See A/60/860.
[c] See A/60/692 and Corr.1.

B. Current central evaluation programme in the United Nations Secretariat

4. It is stipulated that all programmes should be evaluated on a regular, periodic basis[d] and that the evaluation system should also include periodic self-evaluations by programme managers.[e] Self-evaluations, while useful, cannot be considered objective and should not be the only source of information on programme performance. They must be complemented and validated by an independent evaluation function in the Organization. Recognizing the importance of independent evaluation, the United Nations Evaluation Group adopted the norm that the evaluation function should be located independently from the other management functions so that it is free from undue influence and that unbiased and transparent reporting is ensured. It needs to have full discretion in submitting directly its reports for consideration at the appropriate level of decision-making pertaining to the subject of evaluation.[f]

5. In the United Nations Secretariat, only evaluations conducted by OIOS are independent of management. The OIOS Evaluation Section has three professional evaluators, one staff member for administrative support, and a small budget for travel and consultants. With those resources, the Section produces one in-depth evaluation, one thematic evaluation and two triennial reviews per year, as well as a biennial report on strengthening evaluation and occasional ad hoc evaluations.

6. The present institutional arrangements and resources are inadequate for supporting a robust central evaluation programme that could provide the Secretariat and Member States with sufficient, comprehensive and timely evaluations facilitating their review of mandates and programmes. Current central evaluation capacity is limited mainly as a result of the following:

(a) Inadequate coverage: with 27 Secretariat programmes subject to evaluation at the rate of one in-depth evaluation a year, each programme gets evaluated in-depth only once every 27 years. The inadequacy of the coverage is exacerbated by the fact that most departments have a number of large subprogrammes, each of which requires specific attention.

(b) Inability to respond adequately to ad hoc requests for strategic, external evaluations, despite the fact that they do fill a need for independent, timely and reliable assessments.

C. Some enhancements despite underinvestment in evaluation

7. The OIOS Evaluation Section has managed to achieve a noticeable improvement of the evaluation function without any increase in resources. The enhancements have had a positive, albeit limited, impact in strengthening evaluation in the Secretariat. They include the following:

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[d] See ST/SGB/2000/8, regulation 7.2.

[e] See ST/SGB/2000/8, rule 107.2 (b).

[f] For a description of the United Nations Evaluation Group norms on impartiality and independence, see norms No. 5 and No. 6 of "Norms for evaluation in the UN system". Available from http://portal.unesco.org/ci/en/ev.php-URL_ID=22382&URL_DO=DO_PRINTPAGE&URL_SECTION=201.html.

(a) **Successful introduction of thematic evaluations.** OIOS completed its first thematic evaluation, entitled "Evaluation of linkages between headquarters and field activities: a review of best practices for poverty eradication in the framework of the Millennium Declaration".[g] Feedback from both Member States and United Nations stakeholders emphasized its quality, timeliness and focus on systemic issues and its cross-cutting and organization-wide analysis. The second thematic evaluation, on knowledge management networks in pursuit of the goals of the Millennium Declaration,[h] has also been well received and is being used in the development of United Nations system-wide knowledge management strategies.

(b) **Positive response and follow-up to recent in-depth evaluations.** For the 2004-2005 biennium, 75 per cent of OIOS in-depth evaluation recommendations had been implemented by programme managers.

(c) **Launching of an online manual for evaluation.** An online manual entitled "Managing for results: a guide to using evaluation in the United Nations Secretariat" was published in June 2005 to reaffirm the basic principles of internal and external evaluation, to explain the planning and implementation of evaluations in the context of strategic frameworks and biennial budgets and to provide relevant tools and technical guidance.

(d) **Contribution to the establishment of system-wide evaluation norms and standards through the United Nations Evaluation Group.** Through its active participation in the United Nations Evaluation Group, OIOS contributed to the development and endorsement of system-wide evaluation norms and standards. Through ongoing participation in four United Nations Evaluation Group task forces, OIOS is making additional strategic contributions to the strengthening of evaluation systemwide.

(e) **Providing methodological support and training in evaluation.** Over the biennium 2005-2006, OIOS has fulfilled requests for methodological support and training, including advising on terms of reference for evaluation projects, providing feedback on questionnaires and developing training for evaluation skills.

(f) **Improvement of evaluation methodologies and reporting formats.** The OIOS Evaluation Section has strengthened its methodologies by utilizing a more rigorous multimethod approach incorporating both qualitative and quantitative data. In addition, a more uniform format was adopted for all evaluation reports, paying particular attention to highlighting the methodology and placing a stronger emphasis on evaluation findings.

8. It is the considered view of OIOS that the above accomplishments have exhausted any additional efficiencies that could be achieved with the available resources.

D. Conclusion

9. The report of OIOS on proposals for strengthening the Office of Internal Oversight Services (A/60/901) presents proposals for reinforcing OIOS evaluation function with regard to its approach, methodology and number of staff.

[g] E/AC.51/2005/2.
[h] E/AC.51/2006/2.

10. The following conclusions are submitted, therefore, pending the General Assembly decision on strengthening the central and independent evaluation capacity in the Organization. If the stipulation for the periodic, regular evaluation of all programmes is to be implemented, buttressing OIOS capacity is indispensable. Evaluations must fully support the Organization's strategic goals, add value to the Secretariat and Member State deliberations on programme performance and enhance accountability for results.

11. To that end, the General Assembly may wish to consider the OIOS proposal for a robust central and independent evaluation programme consisting annually of eight in-depth and thematic evaluations and of up to two ad hoc evaluations and/or follow-up evaluations per year. The in-depth evaluations would cover all 27 Secretariat programmes over a maximum period of five years. The thematic evaluations (2-3 annually) would address strategic, cross-cutting issues of Organization-wide relevance that only a central, independent evaluation function could credibly undertake. The General Assembly may wish to abolish the triennial reviews as there is now a robust OIOS system in place to track recommendations and follow-up with clients. Conducting eight triennial reviews annually may not be the most efficient use of resources. Instead, a synthesis of the implementation of evaluation recommendations could be produced by OIOS every three years.

12. To implement the preceding proposals OIOS would, in the first instance, redeploy existing authorized posts and use the allocated funding for general temporary assistance in lieu of established posts.